

Labour Cost Index and Quarterly Employment Survey: December 2008

Key points

- > Wage inflation has peaked, and given the loosening in labour market conditions, is set to ease over the coming quarters.
- > Key QES employment gauges were very weak, reinforcing in our minds the likelihood of a poor HLFS outturn on Thursday.
- > Wage inflation is no longer a focus for the RBNZ. A higher unemployment rate on Thursday will see the market price in more aggressive rate cuts.

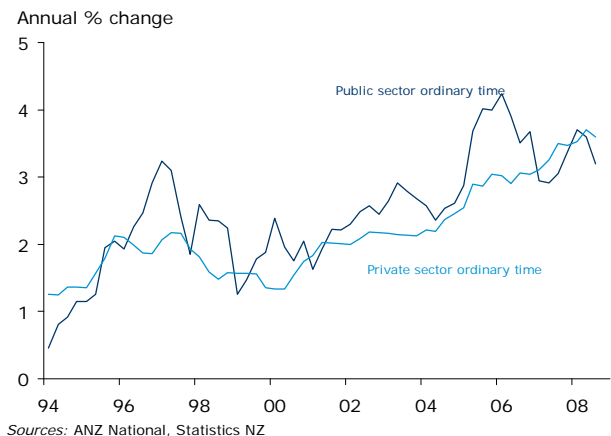
Assessment

Annual wage growth moderates. The Labour Cost Index (LCI) measure of private sector wages rose by a reasonable (albeit slightly lower than expected) 0.7 percent in the December quarter. This follows a strong 1.1 percent increase in the September quarter and takes annual growth from the record 3.7 percent last quarter to 3.2 percent. The comparable public sector measure rose by 0.9 percent in the quarter, taking annual growth from 3.6 percent to 3.5 percent. On an industry level (and including overtime rates), it is a similar story in terms of who is experiencing the largest increases as with recent quarters. In the year to December, the largest industry increases were recorded for mining (up 4.8 percent), central government and administration (up 4.3 percent) and health and community services (up 4.3 percent). Respondents once again typically reported that wage increases were to reflect cost of living increases. The unadjusted LCI measure (which does not adjust for productivity improvements) rose by 1.3 percent in the quarter, leaving annual growth unchanged at 5.4 percent.

It is increasingly clear that wage growth has peaked. The latest QSBO survey highlighted a rapid freeing up in labour resources, with firms reporting it the easiest time to find both skilled and unskilled staff since the early 1990s. It is this dynamic that suggests not only has wage growth peaked, but is likely to ease relatively quickly over coming quarters. With skill shortages easing rapidly and headline inflation also falling, workers will have less scope to push for the strong wage increases that have become the norm over the past two years. However, as wage inflation is typically a late cycle phenomenon, it may not be until the middle of this year that we really start to see a material easing in the headline wage numbers.

	LCI private sector ordinary		QES private sector ordinary		QES paid hours	
	q/q	y/y	q/q	y/y	q/q	y/y
Dec-06	0.9	3.1	0.6	5.5	0.7	3.8
Mar-07	0.7	3.0	0.7	5.5	-0.2	2.2
Jun-07	0.7	3.1	1.0	4.2	1.3	2.6
Sep-07	0.9	3.3	1.3	3.7	0.3	2.1
Dec-07	1.1	3.5	0.9	4.0	1.3	2.8
Mar-08	0.7	3.5	1.1	4.4	0.0	2.9
Jun-08	0.8	3.5	2.0	5.4	0.4	2.1
Sep-08	1.1	3.7	1.1	5.2	-0.4	1.4
Dec-08	0.7	3.2	0.8	5.1	-1.4	-1.4
ANZ	0.7	3.3	0.5	4.7	-	-
Market	0.8	3.4	0.6	4.8	-	-

Private and public sector LCI wage growth



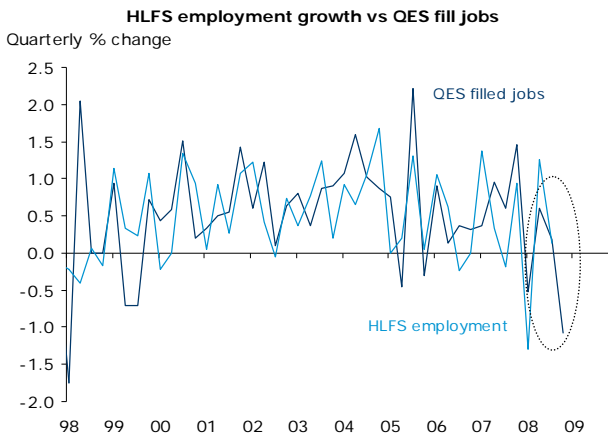
Employment gauges from the QES were weak across the board. Seasonally adjusted paid hours fell 1.4 percent and (actual) filled jobs only rose 0.4 percent in the December quarter. Statistics NZ report that this is the smallest increase in filled jobs for a December quarter since 1991. Seeing as filled jobs typically rise strongly in the December quarter due to seasonal and casual job growth, this growth was much lower than we were expecting. Our seasonal adjustment estimate of filled jobs showed a 1.1 percent fall. The data is notoriously volatile at an industry level, but if paid hours are split into

market and non-market sectors, it is still the former where much of the weakness is occurring, with paid hours falling 2.1 percent (seasonally adjusted) in the quarter. Non-market paid hours were effectively flat in the quarter, although this is also a reasonable step down from quarterly increases averaging 1.3 percent over the first nine months of the year. While the correlation between the QES and HLFS is poor, taken together, today's numbers reinforce in our minds that Thursday's HLFS results could be very weak. We are expecting a sharp fall in employment and a considerable rise in the unemployment rate (from 4.2 to 4.7 percent). A larger rise in the unemployment rate cannot be ruled out.

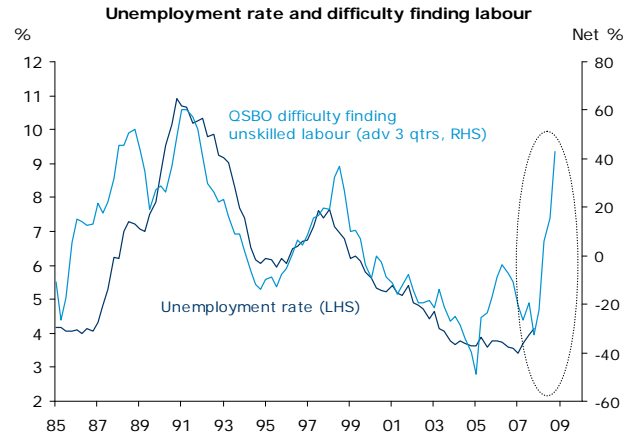
Implications

Wage inflation is no longer a major concern for the RBNZ and therefore today's data has little implications for future policy decisions.

With wage inflation set to moderate, it is likely that services inflation (sectors with high labour inputs) is also likely to ease over coming quarters. Thursday's HLFS report (and the unemployment rate in particular) is now the key focus, and a larger than expected increase in the unemployment rate will see the market price in more aggressive rate cuts from the RBNZ.



Sources: ANZ National, Statistics NZ



Sources: ANZ National, Statistics NZ, NZIER

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ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail ecnmcs@anz.com

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